

Aptus Management, PLLC

Environmental Management Solutions

January 16, 2015

Mark Carpenter
GWC Properties, LLC
P.O. Box 728
Durham, North Carolina 27702

Re: Environmental Review of the South Elizabeth Street Property in Durham

Dear Mr. Carpenter:

As you requested, I have reviewed the various environmental studies and reports on the property, including Terracon Consultants' *Preliminary Soil Management Cost Estimate* (December 24, 2014) and their earlier Phase I and II site assessment reports, as well as DENR's 2006 No Further Action (*NFA*) determination for the underground storage tanks that you removed.

Background on Site Conditions

First, the property is not subject to any environmental orders, agreements or actions by DENR. In 2006 DENR provided a *NFA* determination for four underground storage tanks that were removed and cleaned up (Incidents Nos. 3844 and 19887). The state officials concluded that the site was free of contamination in soil and groundwater and no further cleanup was needed after the tanks were removed. They also found the property was low risk, given the urban setting, with no use of groundwater, and no nearby streams or other sensitive receptors. Like this earlier work, the recent studies by Terracon again showed no contamination in soil or groundwater which DENR would consider a problem or which would be actionable.

In other words, based on the all the environmental studies and assessments, including Terracon's recent work, there is no indication of problems—all evidence points to this being a relatively clean property.

Decommissioning and Cleanup Estimates

Nevertheless, during decommissioning to ready the property for redevelopment there is the possibility that some, modest cleanup will be needed. With this in mind, Terracon identified 16 items (floor drains, hydraulic lifts with small oil reservoirs, areas where tanks were located, etc.) where they were concerned that some leakage or contamination may have occurred. Terracon also provided an estimate totaling \$254,000 to address these items.

Based on my experience, including the recent decommissioning of Wake County School's school bus terminal, which had a similar number of drains, tanks and lift systems, and other decommissioning projects, I believe Terracon's estimate represents a very conservative, worst-case. For the bus terminal project, for example, aggregate costs were less than \$50,000 to address a similar situation.

Moreover, it is common and customary that the list of items Terracon outlined can be managed in a cost-effective manner as simple components of the predevelopment decommissioning, and not as an extraordinary environmental matter.

To put things in perspective, Terracon's estimate would fund a massive cleanup involving disposal of thousands of cubic yards of contaminated soil. There is no evidence that a problem of this magnitude exists. To the contrary, the site assessments completed to date show no contamination and provide no indication that such a large-scale cleanup effort will be needed.

Aptus Management, PLLC

Environmental Management Solutions

Finally, to be fair to Terracon, focused testing of the potential concerns they identified has not been completed. As a result, their estimates are conservative to take into account some level of uncertainty. Further assessment, which I understand will be completed post-closing, should allow Terracon (or another consultant) to re-estimate likely cleanup costs with much greater confidence and, I expect, almost certainly they will be revised downward.

Escrow Funds for Contingent Cleanup Work

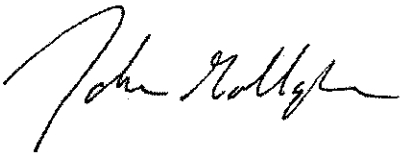
It is my understanding that an escrow will be established that will be available to the city to cover the cost should some environmental cleanup be needed in the course of redeveloping the property. This is a commonly used approach, and particularly appropriate and fitting for this situation where cleanup, to the extent any will be required, would occur post-closing when the building and improvements are decommissioned.

I understand that the initial escrow funding level will be \$500,000, or double the already conservative estimate provided by Terracon. Post-closing, the escrow would be revisited after the items identified by Terracon are assessed further and potential cleanup costs can be re-estimated with more precision. Based on this, it is likely that the appropriate level of escrow funds will be reduced. Provided this is the case, the difference would be remitted to GWC Properties. In addition, after the site is decommissioned and cleanup, as needed, is completed, to the extent there are remaining funds in the escrow, this too would be remitted to GWC.

Conclusion

In consideration that there are no known pollution conditions at the site now requiring cleanup, and no indication that gross spills, leaks or other major problems exist that would trigger a large-scale remediation effort, the escrow framework envisioned should more than adequately address potential risks posed to the city. Further, the process to re-estimate the escrow and remit unused funds to GWC Properties appears to be a fair approach for you as the seller.

Sincerely,

A handwritten signature in black ink, appearing to read "John Gallagher", with a stylized flourish at the end.

John Gallagher, PE

Aptus Management, PLLC

Environmental Management Solutions

About Aptus Management, PLLC

Aptus Management, PLLC is a specialty environmental management and real estate consulting company, which John Gallagher established in 2009. Aptus is also a registered engineering firm licensed to provide professional consulting services and has been a leading advisor to real estate developers, public sector entities, and investors and lenders in North Carolina.

Recent Triangle-area projects include, among others, cleanup and redevelopment of the Wake County School Bus terminal, the Contemporary Art Museum, North Hills, the Stanhope Student Housing Development and Union Station all in Raleigh, and the former Scott & Roberts Cleaners and development of the 539/545 Foster Street site, both in Durham.

Aptus routinely teams with developers, architects, tax credit specialists, public finance experts and real estate brokerage firms to provide comprehensive real estate-related services associated with brownfields redevelopment and disposition of environmentally impaired assets.

Before founding Aptus, John was a managing director at Cherokee Investment Partners, a Raleigh-based private investment fund which specialized in contaminated real estate cleanup and redevelopment. Concurrently, he served as the president of Cherokee's technical engineering, planning and public finance affiliate where he and his team led award-winning environmental restoration projects and managed over \$200 million of cleanup work at brownfields sites located across the US, Canada and Western Europe – projects that helped transform communities, and create real estate and business development value in excess of \$10 billion.

John is a Professional Engineer and a NC Registered Site Manager (RSM) with over 30 years of environmental engineering and management experience. He holds special licenses under other state hazardous waste cleanup programs and is an EPA-Certified Master CERCLA (Superfund) Remedial Project Manager. John is a nationally recognized expert in brownfields redevelopment. He also has consulted to a number of development authorities, public and private-sector clients, financial institutions and real estate developers. Earlier in his career, John served in the U.S. EPA Superfund program and with Eastman Kodak Company.